Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	Calderon	Analyst:	Norman Catelli	Bill Number:	AB 122
Related Bills:	See Prior Analysis	Telephone:	845-5117	Amended Date:	April 21, 2003
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Manufacturers' Investment Credit/Extend Repeal Date

X	DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced January 15, 2003.
X	AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
	AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended __________.
	FURTHER AMENDMENTS NECESSARY.
	DEPARTMENT POSITION CHANGED TO __________.
X	REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED January 15, 2003. STILL APPLIES.
X	OTHER - See comments below.

SUMMARY

This bill would extend the repeal date of the Manufacturers' Investment Credit (MIC) until January 1, 2009.

SUMMARY OF AMENDMENTS

The April 21, 2003, amendments would:

- Extend the repeal date of the MIC until January 1, 2009,
- Eliminate the existing repeal provision of the MIC, and
- Resolve the technical considerations noted in the department's January 15, 2003, analysis.

POSITION

Pending.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP	Brian Putler	5/2/03
____ SA	____ O	____ NAR		
____ N	____ OUA	X PENDING		

ECONOMIC IMPACT

Revenue Estimate

The following revenue impact assumes that the MIC would become inoperative under current law starting with investments put in place on or after January 1, 2004.

Estimated Revenue Impact For Investments Put In Place January 1, 2004 Through December 31, 2008 Assumed Enactment After June 30, 2003 (In Millions)		
2003-04	2004-05	2005-06
-$40	-$195	-$345

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this proposal.

Revenue Discussion

Based on the Governor's Budget (2003-2004) economic forecast, decreases in manufacturing employment are expected to cause the MIC to sunset on January 1, 2004. This bill would eliminate the existing repeal provision and extend the repeal date of the MIC to January 1, 2009. The revenue effect of the MIC credit is generally determined by the following formula:

"Qualified costs" incurred in "qualifying activities" by a "qualified taxpayer" multiplied by 6% equals the gross amount of the MIC credit earned.

The amount of MIC credit allowed to reduce tax liability is limited by the amount of alternative minimum tax, if any, for the year. Other tax rules require a carryover credit to be applied to the limitation amount until exhausted. The newly-earned credit may be applied to any remaining tax liability balance. The amount of the newly-earned credit actually applied to tax liability is the revenue impact. Any credit not applied to the current year tax liability is a carryover to the next year.

The fiscal year cash flow patterns are based on the department's analysis of how taxpayers adjust their tax payments to reflect the reduction in liability resulting from the current law MIC credit amount.

LEGISLATIVE STAFF CONTACT

Norman Catelli
Franchise Tax Board
845-5117
Norm.Catelli@ftb.ca.gov

Brian Putler
Franchise Tax Board
845-6333
Brian.Putler@ftb.ca.gov